

# IRS Fact Sheet

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## Credit Available for Taxpayers Who Purchased or Leased Hybrid Vehicles In 2006

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Taxpayers who purchased or leased any of 44 different models of hybrid vehicles in 2006 may be entitled to a tax credit on their 2006 returns worth as much as \$3,150 for the most fuel-efficient models. The precise amount of the credit depends on the make and model of the vehicle and when the vehicle was purchased. Taxpayers may claim the credit on their 2006 tax returns only if they placed a qualified hybrid vehicle in service in 2006.

The Alternative Motor Vehicle Credit for hybrid vehicles — powered by both an internal combustion engine and a rechargeable battery — was enacted as part of the Energy Policy Act of 2005.

Taxpayers may claim the full amount of the allowable credit only up to the end of the first calendar quarter after the quarter in which the manufacturer records its sale of the 60,000<sup>th</sup> hybrid vehicle. The only manufacturer for whom the credit has been limited in the 2006 tax year is Toyota Motor Sales, USA, which includes Lexus.

The credit amount and purchase date limitation for various models of Toyota and Lexus, which sold more than 60,000 hybrid vehicles, is as follows:

<b>Qualifying Vehicle</b>	<b>Taxpayers May Claim Full Credit If Purchased By 9/30/06</b>	<b>Taxpayers May Claim Half Credit If Purchased From 10/1/06 Through 3/31/07</b>	<b>Taxpayers May Claim Quarter Credit If Purchased From 4/1/07 Through 9/30/07</b>	<b>Taxpayers May Claim No Credit If Purchased After 10/1/07</b>
05, 06, 07 Toyota Prius	\$3,150	\$1,575	\$787.50	\$0

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<b>Qualifying Vehicle</b>	<b>Taxpayers May Claim Full Credit If Purchased By 9/30/06</b>	<b>Taxpayers May Claim Half Credit If Purchased From 10/1/06 Through 3/31/07</b>	<b>Taxpayers May Claim Quarter Credit If Purchased From 4/1/07 Through 9/30/07</b>	<b>Taxpayers May Claim No Credit If Purchased After 10/1/07</b>
06, 07 Toyota Highlander 2WD, 4WD	\$2,600	\$1,300	\$650	\$0
07 Toyota Camry Hybrid	\$2,600	\$1,300	\$650	\$0
06, 07 Lexus RX 400h 2WD, 4WD	\$2,200	\$1,100	\$550	\$0
07 Lexus GS450h	\$1,550	\$775	\$387.50	\$0

**Credit amount for other manufacturers' hybrid vehicles:**

Ford Motor Corp.

- 05, 06, 07 Ford Escape Hybrid 2WD — \$2,600
- 05, 06, 07 Ford Escape Hybrid 4WD — \$1,950
- 06, 07 Mercury Mariner Hybrid 4WD — \$1,950

General Motors Corp.

- 06, 07 Chevrolet Silverado 2WD Hybrid Pickup Truck — \$250
- 06, 07 Chevrolet Silverado 4WD Hybrid Pickup Truck — \$650

—More—

- 06, 07 GMC Sierra 2WD Hybrid Pickup Truck — \$250
- 06, 07 GMC Sierra 4WD Hybrid Pickup Truck — \$650
- 07 Saturn Vue Green Line — \$650

American Honda Motor Company, Inc.

- 05 Honda Accord Hybrid AT and Navi AT — \$650
- 05 Honda Civic Hybrid MT and CVT — \$1,700
- 05, 06 Honda Insight CVT — \$1,450
- 06 Honda Accord Hybrid AT and Navi AT with updated calibration — \$1,300
- 06 Honda Accord Hybrid AT and Navi AT without updated calibration — \$650
- 06 Honda Civic Hybrid CVT — \$2,100
- 07 Honda Accord Hybrid AT — \$1,300
- 07 Honda Accord Hybrid Navi AT — \$1,300
- 07 Honda Civic Hybrid CVT — \$2,100

**Credit Phase-Out Depends on Vehicle Sales**

The phase-out period for a manufacturer begins with the second calendar quarter after the calendar quarter in which the manufacturer records its 60,000th sale. For the second and third calendar quarters after the quarter in which the 60,000th vehicle is sold, taxpayers may claim 50 percent of the credit. For the fourth and fifth calendar quarters, taxpayers may claim 25 percent of the credit. For quarters after that fifth quarter, taxpayers may not claim the credit.

The purchase date determines the amount of credit for which a hybrid vehicle is eligible, but the date the vehicle is placed into service determines when the credit can be claimed for the vehicle. Purchasing and ordering a hybrid vehicle is not enough to claim the credit. The vehicle must be placed in service as well.

**Used and Leased Vehicles**

A consumer that leases a hybrid vehicle is not eligible for the credit. The credit is allowed to the vehicle owner, including the lessor of a vehicle subject to a lease. That means that the lessor (the person who leases the vehicle to the consumer) is the person who can claim a credit for the vehicle.

A credit for a hybrid vehicle can only be claimed by the original purchaser of the vehicle, that is, the purchaser of a new vehicle. The credit does not apply to a used hybrid vehicle.

## **The Credit and the Alternative Minimum Tax**

Also, the Alternative Motor Vehicle Credit cannot be used to offset the Alternative Minimum Tax (AMT). A taxpayer cannot claim the credit unless the taxpayer's regular tax liability exceeds the taxpayer's AMT liability.

Even if a person is not subject to the AMT, he may not be able to claim the maximum allowable credit, or any credit, for the qualified vehicle that is purchased. The amount of the credit that one can claim depends on the particular facts and circumstances.

For example, A, B and C each purchase the same make, model, and model year of qualified hybrid motor vehicle to use as their personal vehicles. At the time that A, B and C purchase their vehicles, the maximum allowable credit for the vehicle is \$3,150. A, B and C each have regular tax of \$12,000 for the taxable year in which they purchase their vehicles. A's tentative minimum tax is \$8,000, B's tentative minimum tax is \$11,000, and C's tentative minimum tax is \$12,000. Because A's regular tax (\$12,000) exceeds A's tentative minimum tax (\$8,000) by \$4,000, A can claim the maximum credit allowable for the qualified hybrid vehicle that A purchases. Because B's regular tax (\$12,000) exceeds B's tentative minimum tax (\$11,000) by only \$1,000, B can claim a credit of only \$1,000 for the qualified hybrid vehicle that B purchases. Because C's regular tax (\$12,000) does not exceed C's tentative minimum tax (\$12,000), C cannot claim any credit for the qualified hybrid vehicle that C purchases.

Also, if you claim the credit as a personal credit, the tax code limits the amount of the credit that you may claim to the amount of your regular tax liability. Therefore, if your regular tax liability is zero, the amount of the credit for which you are eligible will be zero. The credit cannot be used to reduce your regular tax liability below zero, and cannot be carried forward or back to another taxable year.

If the vehicle that you purchase is subject to the allowance for depreciation, then the credit is part of the general business credit and the rules applicable to the general business credit apply.

## **Sales to Tax Exempt Entities**

A person who sells a qualified vehicle to a tax-exempt person or entity and makes a required disclosure can claim the credit. The tax code provides that in the case of a vehicle that is used by a tax-exempt person or entity and is not subject to a lease, the person who sold the vehicle to the tax-exempt person or entity is treated as the taxpayer that placed the vehicle in service. The amount of the credit allowable with respect to the vehicle must be disclosed in writing to the tax-exempt person or entity.